

**Tom Kilgore, President and Chief Operating Officer
Tennessee Valley Authority,
TVA Board Meeting
September 28, 2005 – Knoxville, Tennessee**

- “Thank you” to Chairman Baxter and Director Harris.
- “Good Morning” to everyone.
- I am pleased to provide you with an operational look at our past year.

HIGHLIGHTS AND HARDSPOTS

- One of my management methods is to manage around highlight and hardspots. Solving the hardspots and recognizing those responsible for the highlights is a simplistic but effective way to constantly improve.
- That is the way I plan to structure my report to you this morning.
- And I always like to address the hardspots right up front and as candidly as I can.
- Our biggest hardspot is the root of several hardspots...the price of fuel to make the electricity we deliver to the 8 million people in the Valley.
 - Natural Gas Prices are up an average of 25% since the beginning of summer and the delivered price has increased 67% in one month as hurricanes passed through the Gulf.
 - Average Coal prices are up over 20% for the summer of 2005 compared to the same time last year. (approximately 60% of our energy comes from coal)
 - Fortunately the cost of nuclear fuel is fairly stable (approximately 30% of our energy is from nuclear)
- The drastic rise in fuel prices cascade into the following additional hardspots
 - Necessary rate increases
 - Squeeze on other valid and economically valid expenditures
 - Difficulty in meeting our load growth without paying disproportionate amounts for our purchased power

- We have other hardspots but it is safe to say that many, if not most, of our problems this year are related to this ONE thing.
- Three other hardspots worth mentioning:
 - Meeting all time new demand level (both a highlight and a hardspot)
 - Hurricanes – Katrina directly and Rita indirectly
 - Increased difficulty in getting our coal delivered (cost and availability)
- But there have been many highlights and I would like to spend the next few minute elaborating on some of those.

HIGHLIGHTS: OPERATIONAL EXCELLENCE

- This is the best TVA's integrated power system has ever performed.
- Set *and met* a new all-time demand - 31,924 MW on July 26
- Set new monthly peak demand records for four consecutive months (*June-Sept*)
- In 2005, TVA is expected to generate over 160 BkWh - equivalent to over 12% of electricity consumption by all U.S. households. . . and supplied 16 BkWh more through purchases.
- All of this because of TVA's 12,000 employees & our contractors kept more than 50 TVA generating stations running and 17,000 miles of transmission lines delivering through the challenging summer
- With that kind of performance there are many highlights, I'll mention just a few...

GENERATING & TRANSMISSION HIGHLIGHTS

FOSSIL

- The entire Fossil fleet will generate close to 99 billion kilowatt-hours – Almost 5% more than last year.

- Our 59 coal-fired units ran continuously for over 159 hours - fossil's longest stretch ever without any type of outage
- Overall Reliability of the fossil fleet continues to improve.
 - ⇒ This year we had the best 12 month reliability measure ever recorded, with asset availability 2% over plan.
 - ⇒ Including a national record for continuous operation of any coal or nuclear plant by Widows Creek fossil plant with 819 days continuous operation.

NUCLEAR

- All five nuclear units ran near full capacity this summer.
- Generating 45 billion kilowatt-hours which was 871 million kilowatt-hours more than expected during this year.
- Browns Ferry and Sequoyah nuclear plants were first- and second-lowest production costs in the nation ranked by *Nucleonics Week* magazine (*Note: Over a three-year period*)
- Sequoyah achieved a rare 100-percent index by the Institute of Nuclear Power Operations. (*Note: Only 11 of the nation's 103 operating nuclear units earned a 100 percent index*)
- Browns Ferry Unit 1 Restart is on-schedule and on-budget.
 - ⇒ In 2007, it will add 1,280 MW base-load capacity - Enough power to serve almost three-quarters of a million homes
- Last week, the Bellefonte site was selected by NuStart Energy Development as one of the two best sites in the nation for a next generation nuclear plant.

HYDRO

- Our hydro fleet, generation is expected to exceed 13% above normal.
 - ⇒ Impressive considering rainfall has been 9% below normal.
- And we continue to work with the Regional Resource Stewardship Council on natural resource and stewardship issues, with the latest being a new recreational strategy.

TRANSMISSION

- Transmission performance has also been impressive.
- Sixth year in a row the TVA transmission system delivered 99.999% reliability
- TVA was cited as an “Example of Excellence” from the North American Electric Reliability Council (NERC) for our reliability and internal procedures.
- This level of excellence was clearly demonstrated in the immediate recovery from the effects of Katrina...
- All TVA transmission points restored in TWO days.

HIGHLIGHTS: DEBT REPAYMENT (FINANCES)

- Another Key to Success is Debt Repayment.
- As I’ve said before, “We’ve got to be frugal - in a smart way.”
- This fiscal year, we will pay down total financing obligations by \$300 million dollars - which is more than 25% over what was budgeted.
- Bringing total reduction since the end of 1996 to \$2.1 billion dollars
- This is not aggressive enough...we plan to more than double that reduction over the next 10 years...by reducing TVA’s total financing obligations by \$5.6 billion.

HIGHLIGHTS: CUSTOMER RELATIONSHIPS

- The Board approved a rate increase without our customers’ objections.
- We worked side by side to recover from natural disasters.
- We have listened to their needs and desires and are working on strengthening our Product, Pricing and Contract offerings.
- We still have more work to do in this area.

HIGHLIGHTS: STEWARDSHIP IN THE VALLEY

- One of the basic tenets of TVA...is being good Valley Stewards.
- One way we are stewards is in the environmental arena:
 - ⇒ I could talk about on going things like our Green Power Switch
 - ⇒ Tennessee will become the first state in the nation to utilize green power for its entire state park system.

RIVER AND PUBLIC LANDS

- ⇒ 48 marinas have now joined the TVA Clean Marinas program which helps boaters refrain from dumping waste and spilling fuel.
- ⇒ And I could talk about how TVA continues to help avert an average of more than \$200 million dollars in annual flood damage.... And Save shippers almost \$500 million dollars annually over the next cheapest alternative by managing TVA locks and dams
- ⇒ But I am most excited about the positive change we are making in ways that will keep improving our environment her in the valley
- ⇒ Like continuing to put our money where our mouth is on CLEAN AIR

AIR

- ⇒ Studies show that air quality in the Tennessee Valley, including the Smoky Mountains . . . is better now than at any time since at least the 1970s.
- ⇒ TVA has one of the most aggressive emission-control programs in the nation.
 - In addition to 18 installed SCRs, this year added 2 more for total of 20 SCRs at 11 Fossil Plants.
 - *Nitrogen oxide emissions during the 2005 summer ozone season were reduced about 80 percent from 1995 levels.*
 - In addition to 6 installed Scrubbers, to reduce sulfur dioxide, construction is under way on scrubbers at Paradise and Bull Run Fossil Plants.

- When finished over 40% of our coal-fired capacity will be equipped with scrubbers. (Note: Currently 30% equipped) and sulfur dioxide emissions will be reduced by 80 to 85 percent below 1977 levels.
- Upon completion - TVA will have invested \$5.7 billion dollars to reduce emissions and make the air cleaner.

ECONOMIC DEVELOPMENT

- Another way we are stewards to the valley is through our Economic Development efforts.
- Here are just a few of this year's announcements--
 - ⇒ T-Mobile will locate some 650 jobs in Chattanooga, stimulating investment of \$20 million dollars into the local economy.
 - ⇒ Caremark Rx continues to expand with 500 new call-center jobs are following its corporate headquarters move to Nashville,
 - ⇒ Baldor Electric will create and retain 400 jobs, while making a \$21 million dollar expansion in Lowndes County, Mississippi.
 - ⇒ And Benson International . . . a maker of truck bodies and trailers . . . will create 250 jobs over the next five years while building a \$10 million dollar plant in Kentucky's Trigg County Industrial Park.
- TVA works with communities to help them compete regionally, nationally and globally. This includes:
 - ⇒ Megasite certification process which identifies large industrial sites for potential large auto manufacturing plants. So far 5 Megasites have been certified in the valley. (Note: 1 KY, 2 TN, 2 MS)

EMPLOYEES

- Another important aspect of Valley Stewardship, are the EMPLOYEES who make up this company called "TVA"
- Their contribution to the quality of life is seen through the numerous, and often unheralded, activities performed everyday, such as:
 - ⇒ TVA Watershed Teams, with 1200 volunteers, who collected over 54 tons of trash and debris from area reservoirs, streams, parks and roadways.

- As John mentioned earlier, the events of Katrina & Rita served to bring to light the charitable acts that are done by TVA employees and retirees everyday.
 - Winston Churchill said: “We make a living by what we get...but we make a life by what we give.”
- ⇒ I think TVA employees continue to demonstrate that they know what life in this valley is about.

<i>CLOSING: “GOOD TO GREAT” - 4 KEYS TO FUTURE</i>

- The challenges in front of us are many...But I am confident we are prepared to meet them.
- Through Operational Excellence - meeting record demands day after day
- Through Financial Flexibility – Being frugal in a smart way, reducing our debt
- Through Improving our Customer Relationships – Together, we are successful
- Through Valley Stewardship - Managing Natural Resources - Stimulating economic growth - Supporting the Communities
- As Ralph Waldo Emerson said, “Nothing great is ever achieved without enthusiasm.”
- I AM ENTHUSIASTIC ABOUT THE POSSIBILITIES OF PARTICIPATING IN THE CHANGES THAT WILL MAKE TVA BETTER THAN EVER IN THE NEXT FEW YEARS.

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